

**Perry County Nursing Home  
Linden, Tennessee**

**Cost Reports for the Periods  
December 1, 1998, Through December 31, 1999,  
and January 1 Through December 31, 2000,  
and Resident Accounts for the Period  
January 1 Through December 31, 2000**

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TennCare/Medicaid audits are available on-line at [www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our Web site at  
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STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
State Capitol  
Nashville, Tennessee 37243-0260  
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John G. Morgan  
Comptroller

November 13, 2001

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Mr. Mark Reynolds, Director  
Bureau of TennCare  
729 Church Street, Fifth Floor  
Nashville, Tennessee 37247

Ladies and Gentlemen:

Pursuant to Section 71-5-130, *Tennessee Code Annotated*, and a cooperative agreement between the Comptroller of the Treasury and the Department of Finance and Administration, the Division of State Audit performs examinations of nursing facilities participating in the Tennessee Medical Assistance Program under Title XIX of the Social Security Act (Medicaid).

Submitted herewith is the report of the examination of the Medicaid cost reports of Perry County Nursing Home, Linden, Tennessee, for the periods December 1, 1998, through December 31, 1999, and January 1 through December 31, 2000, and resident accounts for the period January 1 through December 31, 2000.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
02/009

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Perry County Nursing Home**  
Linden, Tennessee

For the Period December 1, 1998, Through December 31, 1999,  
and for the Year Ended December 31, 2000

## FINDINGS RECOMMENDING MONETARY REFUNDS

### **Improperly Claimed Expenses Included on the Cost Report**

Perry County Nursing Home has included \$58,428.35 of nonallowable expenses on the NF-1 cost report for the period December 1, 1998, through December 31, 1999, and \$165,747.70 of nonallowable expenses on the NF-1 cost report for the fiscal year ended December 31, 2000. As a result of these examination adjustments and the adjustments to resident days, Perry County Nursing Home

should repay \$96,429.60 to the State of Tennessee (page 5).

### **Need to Adequately Support Medicaid and Total Resident Days**

Perry County Nursing Home did not adequately support 86 Medicaid and total resident days on the NF-1 cost report for the fiscal year ended December 31, 2000. This examination adjustment is included in the recomputation and repayment request in finding 1 (page 7).

## FINDINGS NOT RECOMMENDING MONETARY REFUNDS

### **Need to Maintain Adequate Documentation**

Perry County Nursing Home did not maintain documentation necessary to support adequately the NF-1 cost report and resident accounts receivable. The facility did not maintain a

general ledger for nine months, did not integrate dual cash disbursement systems, did not have cash disbursement journal records for July of 1999, and did not maintain individual accounts receivable (page 8).

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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**Perry County Nursing Home  
Linden, Tennessee**

**Cost Reports for the Periods  
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and January 1 Through December 31, 2000,  
and Resident Accounts for the Period  
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**Perry County Nursing Home  
Linden, Tennessee**

**Cost Reports for the Periods  
December 1, 1998, Through December 31, 1999,  
and January 1 Through December 31, 2000,  
and Resident Accounts for the Period  
January 1 Through December 31, 2000**

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**INTRODUCTION**

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**PURPOSE AND AUTHORITY OF THE EXAMINATION**

The terms of contract between the Tennessee Department of Finance and Administration and the Tennessee Comptroller's office authorize the Comptroller to perform examinations of nursing facilities that participate in the Tennessee Medicaid Nursing Facility Program.

Under their agreements with the state and as stated on cost reports submitted to the state, participating nursing facilities have asserted that they are in compliance with the applicable state and federal regulations covering services provided to Medicaid-eligible recipients. The purpose of our examination is to render an opinion on the nursing facilities' assertions that they are in compliance with such requirements.

**BACKGROUND**

To receive services under the Medicaid Nursing Facility Program, a recipient must meet Medicaid eligibility requirements under one of the coverage groups included in the *State Plan for Medical Assistance*. The need for nursing care is not in itself sufficient to establish eligibility. Additionally, a physician must certify that recipients need nursing facility care before they can be admitted to a facility. Once a recipient is admitted, a physician must certify periodically that continued nursing care is required. The number of days of coverage available to recipients in a nursing facility is not limited.

The Medicaid Nursing Facility Program provides for nursing services on two levels of care. Level I Nursing Facility (NF-1) services are provided to recipients who do not require an intensive degree of care. Level II Nursing Facility (NF-2) services, which must be under the direct supervision of licensed nursing personnel and under the general direction of a physician, represent a higher degree of care.

Perry County Nursing Home, Linden, Tennessee, provides only NF-1 services. The facility is owned by the County of Perry and is leased to Perry Managed Care, a partnership. The partnership consisted of two equal partners in December of 1998, Mr. Barry Cunningham and Ms. Paula Salhany. Ms. Salhany's share of the partnership was purchased by Ms. Rhnnea Cunningham in August of 1999. Due to Mr. Cunningham's positions as a partner in this lease and as a county commissioner, the Tennessee Division of County Audit found that the arrangement was a conflict of interest. The matter was addressed in the audit reports for the Perry County General Fund during the fiscal years ended June 30, 1999, and June 30, 2000.

During the examination periods, the facility maintained a total of 114 licensed nursing facility beds. The Division of Quality Assurance of the Department of Health licensed the facility for these beds. Eligible recipients receive services through an agreement with the Department of Health. Of the 45,144 available bed days, 40,918 were for Medicaid NF-1 residents during the period December 1, 1998, through December 31, 1999. Also, the facility reported total operating expenses of \$3,848,258 for the period. Of the 41,610 available bed days, 37,607 were for Medicaid NF-1 residents during the fiscal year ended December 31, 2000. Also, the facility reported total operating expenses of \$3,573,737 for the period.

The Division of Quality Assurance inspected the quality of the facility's physical plant, professional staff, and resident services. The nursing facility met the required standards.

The following Medicaid reimbursable rates were in effect for the period covered by this examination:

<u>Period</u>	<u>Level I NF (744-0536)</u>
December 1, 1998, through June 30, 1999	\$ 90.54
July 1, 1999, through June 30, 2000	\$ 93.87
July 1 through August 31, 2000	\$ 93.89
September 1, 2000, through June 30, 2001	\$ 94.46

## **PRIOR EXAMINATION FINDINGS**

This is the first examination of Perry County Nursing Home under its current ownership.

## **SCOPE OF THE EXAMINATION**

Our examination covers certain financial-related requirements of the Medicaid Nursing Facility Program. The requirements covered are referred to under management's assertions specified later in the Independent Accountants' report. Our examination does not cover quality of care, clinical, or medical provisions.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
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NASHVILLE, TENNESSEE 37243-0264  
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**Independent Accountant's Report**

**September 6, 2001**

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Mr. Mark Reynolds, Director  
Bureau of TennCare  
729 Church Street, Fifth Floor  
Nashville, Tennessee 37247

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated September 6, 2001, that Perry County Nursing Home complied with the following requirements during the cost report periods December 1, 1998, through December 31, 1999, and January 1 through December 31, 2000, and to the facility's resident accounts for the period January 1 through December 31, 2000.

- Income and expenses reported on the Medicaid Cost Report are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.
- Resident days reported on the Medicaid Cost Report have been counted in accordance with state regulations. Medicaid resident days billed to the state for periods when residents were hospitalized or on therapeutic leave are in accordance with the 15-day hospital stay rule, the 85 percent occupancy rule, and the 60-day therapeutic leave day rule.

- Charges to residents and charges to residents' personal funds are in accordance with state and federal regulations.

As discussed in management's representation letter, management is responsible for ensuring compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the facility's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, and accordingly, included examining on a test basis evidence about Perry County Nursing Home's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Perry County Nursing Home's compliance with specified requirements.

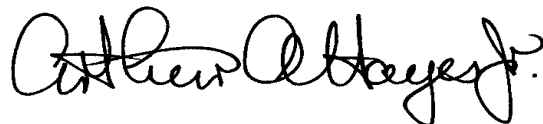
Our examination disclosed the following material noncompliance applicable to state and federal regulations:

- Nonallowable expenses included on the cost report
- Need to adequately support Medicaid and total resident days
- Need to maintain adequate documentation

In our opinion, except for the material noncompliance described above, management's assertions that Perry County Nursing Home complied with the aforementioned requirements for the cost reporting periods December 1, 1998, through December 31, 1999, and January 1 through December 31, 2000, and for resident accounts for the period January 1 through December 31, 2000, are fairly stated in all material respects.

This report is intended solely for the use of the Tennessee General Assembly and the Tennessee Department of Finance and Administration. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA, JD, CFE, Director

AAH/pn

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## FINDINGS AND RECOMMENDATIONS

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### 1. Improperly claimed expenses included on the cost report

#### Finding

Perry County Nursing Home included \$58,428.35 of improperly claimed expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the period December 1, 1998, through December 31, 1999. Disallowed costs for this period consist of \$6,871.95 of inadequately supported expenses, \$1,236.20 of costs not related to resident care, \$5,098.80 of other expenses not considered to be reasonable, \$5,897.79 of vehicle costs not considered to be reasonable, \$32,162.50 of owners’ compensation in excess of the allowable maximums, \$321.11 of expenses that should have been reimbursed by insurance coverage, and \$8,208.00 of equipment costs that should have been capitalized. Depreciation expense of \$1,368.00 will be allowed on the capitalized equipment.

Examples of the disallowed costs include but are not limited to the following:

- hourly payroll expenses of \$2,404 to a relative for whom no time records existed
- payments to an owner of \$16,000 for accounting services that are in excess of the owners’ compensation limits
- \$3,087 of beauty shop supplies that included items not typical for nursing home care
- personal restaurant bills
- unreasonable payments totaling \$3,555 to relatives for performing yard work
- vehicle allowances of \$5,897 paid in addition to reimbursement based on mileage
- lease payments to the owners of \$16,000 for computers and software that were not actually used

In addition, Perry County Nursing Home included \$165,747.70 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended December 31, 2000. The nonallowable costs for this period consist of \$104,332.29 of inadequately supported expenses, \$7,724.84 of costs not related to resident care, \$14,082.52 of other expenses not considered to be reasonable, \$5,129.65 of vehicle costs not considered to be reasonable, \$27,000.00 of owners’ compensation in excess of the allowable maximums, and \$9,600.00 of landscaping costs that should have been capitalized. Depreciation expense of \$2,121.60 will be allowed on the capitalized landscaping and the equipment capitalized in the adjustment for the prior period.

Examples of the disallowed costs include but are not limited to the following:

- hourly payroll expenses of \$12,971 to employees for whom no time records existed
- supplies expenses of \$88,951 which lacked a reasonable explanation, paid to an owner
- \$2,229 of personal restaurant bills, trips to Aruba, and expenses for sporting events

- unreasonable payments of \$4,231 to relatives for performing yard work and aquarium maintenance
- personal landscaping costs
- \$4,912 of vehicle allowances paid in addition to reimbursement based on mileage
- lease payments of \$15,000 for computer software and equipment that was not actually used
- payments to an owner of \$12,000 for accounting services that are in excess of the owners' compensation limits
- electric bills of \$2,589 that were not for the nursing home

Chapter 1200-13-6-.15 of the *Rules of the Tennessee Department of Health* requires that “cost reports . . . must provide adequate cost and statistical data . . . (this data) must be based on and traceable to the provider’s financial and statistical records and must be adequate, accurate and in sufficient detail to support payment.” Chapter 1200-13-6-.09 (1)(d) notes, “Adequate financial records, statistical data, and source documents must be maintained for proper determination of costs under the program.”

Chapter 1200-13-6-.09 of the *Rules* states that “the following are . . . expenses not considered a part of the cost of providing routine service, and should be deducted. . . . (4)(f)(5) Costs which are not necessary or related to resident care; (4)(f)(16) casualty and other losses such as liability . . . that are insurable but uninsured; (4)(f)(17) Advertising costs incurred . . . (w)hich seek to increase resident population or utilization of the provider . . . ; and (4)(f)(20) Travel expenses which are personal in nature, not proper or related to resident care, and auto expenses applicable to non-business uses of the vehicles.”

Chapter 1200-13-6-.09 (3)(e) notes that “a reasonable allowance or compensation for services of an owner or persons related to an owner is an allowable cost, provided the services are performed in a necessary function . . . the services must be related to resident care and pertinent to the operation and sound management of the institution.” Chapter 1200-13-6-.11 of the *Rules* provides the maximum compensation allowable to owners and related parties for various positions.

Paragraph 4720 of the *Medicare and Medicaid Guide* states, “If a depreciable asset has . . . an estimated useful life of at least 2 years and a historical cost of at least \$5,000, its cost must be capitalized and written off ratably over the estimated useful life of the asset.”

As a result of the above adjustments and the adjustment to reported resident days noted in finding 2, the facility’s Medicaid reimbursable rate was decreased as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
September 1, 2000, through June 30, 2001	\$94.46	\$93.03	(\$1.43)
July 1, 2001, to present	\$95.10	\$90.98	(\$4.12)

Overpayments made to the facility as a result of the above adjustments total \$96,429.60 computed from September 1, 2000, through October 31, 2001.

### **Recommendation**

Perry County Nursing Home should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be adequately supported, related to resident care, and in compliance with other applicable regulations.

The facility should refund \$96,429.60 to the State of Tennessee, representing overpayments by the Medicaid Program as a result of the rate reduction computed from September 1, 2000, through October 31, 2001.

### **Management’s Comment**

Management concurs with \$16,000 of the total of \$58,428 disallowed for the period ended December 31, 1999. Management also concurs with \$19,818 of the total of \$165,748 disallowed for the year ended December 31, 2000. All remaining disallowed costs are disputed. We have provided support that shows these to be allowable expenses.

### **Rebuttal**

In our opinion, management did not provide adequate and convincing documentation to justify the expenses being disallowed.

## **2. Need to adequately support Medicaid and total resident days**

### **Finding**

Perry County Nursing Home did not adequately support 86 Medicaid and total days on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended December 31, 2000. The facility did not total the detailed daily census reports. The detailed daily census reports, when totaled, did not agree with the monthly summary reports.

Chapter 1200-13-6-.09 (2) of the *Rules of the Tennessee Department of Health* defines an inpatient day and the records necessary to support those days. Chapter 1200-13-6-.15 of the *Rules* notes that “statistical data . . . must be based on and traceable to the provider’s . . . statistical records and must be adequate, accurate and in sufficient detail to support payment made for services.”

The effect of this adjustment is included in the Medicaid reimbursable rate recomputation on finding 1.

### **Recommendation**

Perry County Nursing Home should adequately support the resident day statistics on the “Medicaid Nursing Facility Level 1 Cost Report.” The facility should complete all reports requiring accumulation of statistics.

### **Management’s Comment**

Management concurs.

### **3. Need to maintain adequate documentation**

#### **Finding**

Perry County Nursing Home has failed to maintain documentation necessary to support adequately the “Medicaid Nursing Facility Level 1 Cost Report.” The facility does not maintain individual accounts receivable but relies on monthly charge and payment logs and on the bookkeeper’s memory to determine accounts receivable balances at any given time. As a result, unrefunded credit balances due to residents or their responsible parties are not readily apparent.

In addition, the facility did not maintain a general ledger for the period December 1, 1998, through August 30, 1999. On August 30, 1999, lump-sum entries were made in the general ledger accounts to summarize all transactions occurring between December 1, 1998, through August 30, 1999. The facility had no detailed schedules supporting those entries.

Also, the facility maintained two cash disbursement systems during the period December 1, 1998, through November 10, 1999. One system was computerized, and one system was manual. With no general ledger during most of this period, the Division of State Audit had to employ alternate procedures to audit monthly expense entries for this time period. Also, the facility did not have the cash disbursement journal from the manual system for July of 1999. The Division of State Audit had to employ alternate procedures to audit the detailed expenditures from the manual system for July of 1999.

Chapter 1200-13-6-.15 of the *Rules of the Tennessee Department of Health* states:

The cost reports . . . must provide adequate cost and statistical data. This data must be based on and traceable to the provider’s financial and statistical records and must be adequate, accurate and in sufficient detail to support payment made for services

rendered to beneficiaries. This data must also be available for and capable of verification by the Comptroller of the Treasury or his agents . . . (d)ata reflected on the cost report which cannot be substantiated may be disallowed with reimbursement being required of the provider.

### **Recommendation**

Perry County Nursing Home should maintain records adequate to verify both resident accounts and information reported on the “Medicaid Nursing Facility Level 1 Cost Report” without the need to employ alternative methods. The facility should institute and maintain resident accounts receivable.

### **Management’s Comment**

Management concurs.

## **SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS**

### **Source of Overpayments**

Rate reduction (see finding 1)	<u>\$96,429.60</u>
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### **Disposition of Overpayments**

Due to the State of Tennessee	<u>\$96,429.60</u>
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